

**INDEPENDENT SCHOOL DISTRICT NO. 111
WATERTOWN, MINNESOTA**

**ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015
TOGETHER WITH INDEPENDENT AUDITOR'S REPORT**

INDEPENDENT SCHOOL DISTRICT NO. 111
WATERTOWN, MINNESOTA

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INDEPENDENT SCHOOL DISTRICT NO. 111
WATERTOWN, MINNESOTA

ORGANIZATION

SCHOOL OFFICIALS
FOR THE YEAR ENDED JUNE 30, 2015

<u>Elective</u>	<u>Office</u>	<u>Term Expires</u>
Jennifer Janikula	Chair	12/31/19
Julie Sweeney	Vice Chair	12/31/19
Cassie Vogt	Clerk	12/31/16
Jeffrey Jackson	Treasurer	12/31/16
Steve Burns	Director	12/31/16
Stacy Unowsky	Director	12/31/16
Tim Thompson	Director	12/31/19

Appointive

Ron Wilke	Superintendent
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Independent Auditor's Report

To the School Board
Independent School District No. 111
Watertown, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 111, Watertown, Minnesota (District), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District, as of June 30, 2015, and the respective changes in financial position thereof and the respective budgetary comparison for the General Fund, Food Service Fund and Community Service Fund, for the year then ended in accordance with accounting principles generally accepted in the United States.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the District adopted new accounting guidance, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date* during fiscal year 2015. Our opinion is not modified with respect to this matter.

Other Matters**Required Supplementary Information**

Accounting principles generally accepted in the United States require that the management's discussion and analysis, and information about the District's other postemployment health care plan and information about the District's net pension liability, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The fiscal compliance table is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. The fiscal compliance table and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the fiscal compliance table and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 2015, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Wipfli LLP". The signature is written in a cursive, flowing style.

Wipfli LLP

November 9, 2015
Duluth, Minnesota

REQUIRED SUPPLEMENTARY INFORMATION

INDEPENDENT SCHOOL DISTRICT NO. 111
WATERTOWN, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2015

As management of Independent School District No. 111 (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2015.

FINANCIAL HIGHLIGHTS

Key financial highlights for the 2014-2015 fiscal year include the following:

- Total net position increased \$953,354.
- District fund balance changes: General Fund - Net decrease of \$68,827, Food Service Fund - Net increase of \$21,986, Community Service - Net increase of \$33,030 and Debt Service - Net decrease of \$769,251.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of the annual report consists of four parts - Independent Auditor's Report, required supplementary information which includes the Management's Discussion and Analysis (this section), the basic financial statements and supplemental information. The basic financial statements include two kinds of statements that present different views of the District.

Government-wide Statements

The government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the District's net position and how it has changed.

The statement of net position presents information on all of the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. To assess the overall health of the District you need to consider additional non-financial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

The statement of activities presents information showing how the District's net position changed during the fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (i.e., uncollected taxes and earned but unused compensated absences).

The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation, and operation of non-instructional services.

INDEPENDENT SCHOOL DISTRICT NO. 111
WATERTOWN, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2015
(Continued)

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements, state statutes, and to control and manage money for particular purposes. All of the funds of the District can be divided into two categories: governmental funds and fiduciary funds.

Governmental funds - Most of the District's basic services are included in governmental funds. Governmental fund financial statements focus on near-term inflows of cash and other financial assets that can readily be converted to cash, as well as the balances at year-end that are available for spending. Consequently, the government funds statements provide a detailed short-term view that helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

Because this information does not encompass the additional long-term focus of the government-wide statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. A reconciliation is provided to facilitate a comparison between government funds financial statements and government-wide financial statements.

Fiduciary funds - The District is the trustee, or fiduciary, for assets that belong to others, such as the student activity funds and the postemployment benefits irrevocable trust. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. All of the District's fiduciary activities are reported in a separate statement of fiduciary net position and a statement of changes in fiduciary net position. We exclude these activities from the government-wide financial statements because the District cannot use these assets to finance its operation.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net position may serve over time as a useful indicator of a district's financial position. In the case of the District, assets exceeded liabilities and deferred inflows of resources by \$354,550 as of June 30, 2015.

	2015	2014 Restated
Capital assets	\$ 56,873,674	\$ 58,389,086
Current and other assets	36,009,977	36,987,585
Total assets	<u>92,883,651</u>	<u>95,376,671</u>
Deferred outflows of resources	<u>1,567,581</u>	<u>652,834</u>
Long-term liabilities	83,028,007	85,041,112
Other liabilities	2,626,894	6,188,631
Total liabilities	<u>85,654,901</u>	<u>91,229,743</u>
Deferred Inflows of Resources	<u>8,441,781</u>	<u>5,398,566</u>
Net position (deficit)		
Net investment in capital assets	12,238,674	11,959,089
Restricted	114,799	146,985
Unrestricted (deficit)	<u>(11,998,923)</u>	<u>(12,704,878)</u>
Total net position (deficit)	<u>\$ 354,550</u>	<u>\$ (598,804)</u>

INDEPENDENT SCHOOL DISTRICT NO. 111
WATERTOWN, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2015
(Continued)

The District's total revenues were \$22,508,776 for the year ended June 30, 2015. Property taxes and state aids accounted for 78 percent of total revenue. Another 22 percent came from program revenues and other general revenues.

	<u>2015</u>	<u>2014</u>
Revenues		
Program revenues		
Charges for services	\$ 1,749,736	\$ 1,832,039
Operating grants and contributions	2,910,882	2,896,447
General revenues		
Property taxes	5,572,299	4,976,813
State aids	12,075,494	11,653,678
Investment earnings		
Other	200,365	540,539
Total revenues	<u>22,508,776</u>	<u>21,899,516</u>
Expenses		
District and school administration	826,947	759,916
District support services	496,543	400,800
Regular instruction	6,913,909	6,732,601
Vocational instruction	243,022	196,856
Exceptional instruction	3,021,284	3,023,622
Instructional support services	802,075	818,017
Pupil support services	1,516,312	1,542,299
Sites and building	3,166,113	3,755,822
Fiscal and other fixed cost programs	88,779	84,904
Food service	762,915	779,964
Community service	1,139,563	1,243,147
Interest and fiscal charges on long-term debt	2,577,960	2,549,270
Total expenses	<u>21,555,422</u>	<u>21,887,218</u>
Change in net position	953,354	12,298
Net position, beginning of year (deficit)	(598,804)	9,834,157
Adjustment for valuation of net pension liability at June 30, 2014		<u>(10,445,259)</u>
Net position (deficit), beginning of year, restated		<u>(611,102)</u>
Net position (deficit), end of year	<u>\$ 354,550</u>	<u>\$ (598,804)</u>

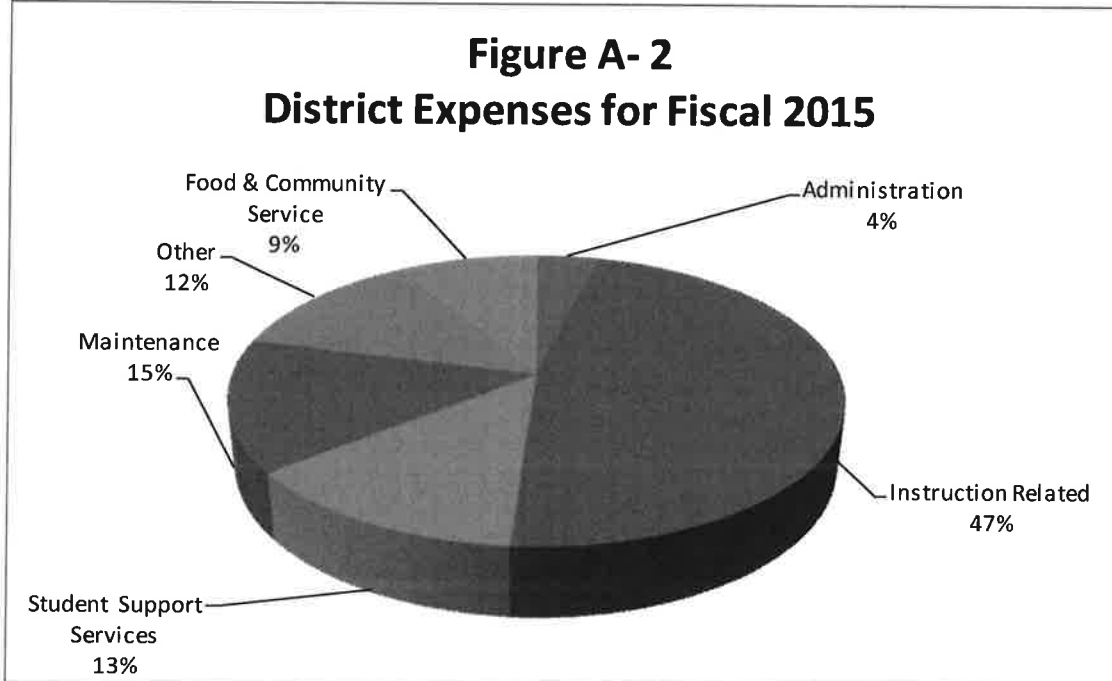
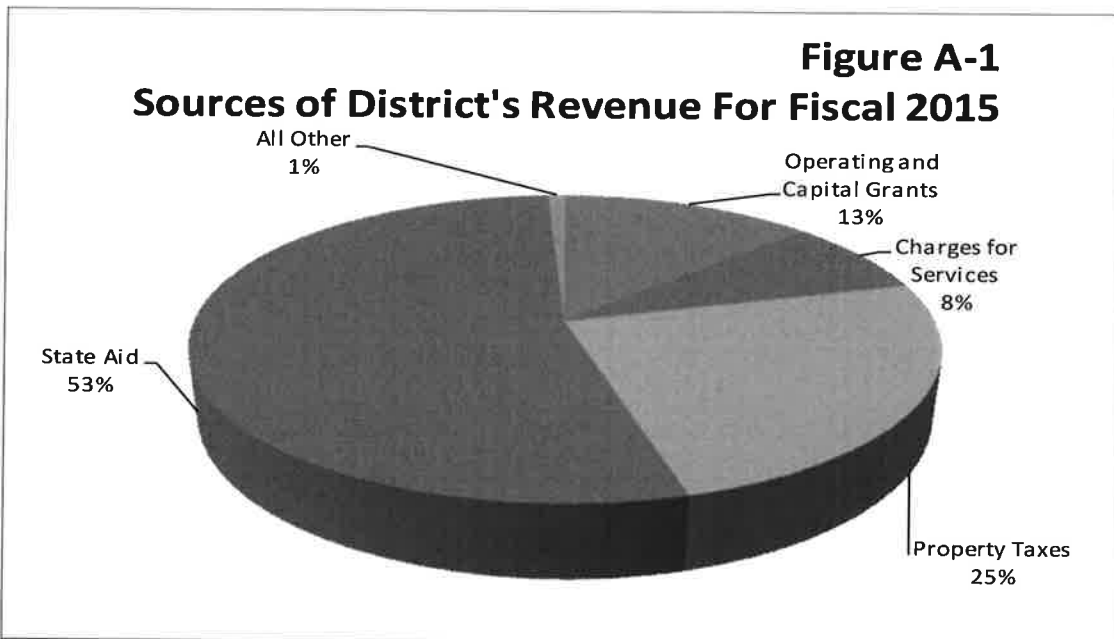
The revenue and expense activity for the fiscal year 2014 was not restated because the actuarial valuation used June 30, 2014 as the measurement date. Information related to the pension liability prior to that date is not available.

INDEPENDENT SCHOOL DISTRICT NO. 111
WATERTOWN, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2015
(Continued)

The cost of all governmental activities this year was \$21,555,422.

- Most of the District's costs were paid for by state and federal aid, and by the taxpayers of our state.
- A portion of the District's costs were paid for with \$5,572,299 in property taxes, \$12,075,494 of state and federal aid based on the statewide education aid formula, and other general revenues.
- Some of the costs were paid by the user of the District's programs. That amount was \$1,749,736.
- The federal and state governments subsidized certain programs with grants and contributions of \$2,910,882.



INDEPENDENT SCHOOL DISTRICT NO. 111
WATERTOWN, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2015
(Continued)

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported a combined fund balance of \$28,542,674, as compared with \$29,325,736 for the prior year. Two factors which influenced the change in the Total District's Fund are the debt service refunding escrow account, which recorded expenditures in excess of revenue of \$873,600 and the Primary Construction project completion.

GENERAL FUND

The General Fund includes the primary operations of the District in providing educational services to students from kindergarten through the age of 21, including pupil transportation activities and capital outlay projects.

Nearly all of the General Fund operational revenue is controlled by a complex set of state funding formulas resulting in the local school board having no meaningful authority to determine the level of resources. This includes special education state aid that is based upon a cost reimbursement model providing approximately 68 percent of personnel expenditures. Other state formulas then determine what portion of the revenue will be provided by property taxes and what portion will come from state aid.

Enrollment

Enrollment is a critical factor in determining revenue, with approximately 69 percent of General Fund revenue being determined by enrollment. The chart below displays the change in ADM for the past 5 years. 2015 shows an enrollment decrease from 2014. The largest factor that contributes to the decline of enrollment is low population growth as a result of the slowdown of the state economy. Future enrollment will be monitored closely to assure accurate budgeting.

Table A-3
Five-Year Enrollment Trend
Average Daily Membership (ADM)

Grade	2010	2011	2012	2013	2014	2015
K	125	156	137	138	136	133
1-3	394	385	368	368	358	340
4-6	358	358	395	380	371	357
7-12	730	691	672	706	694	719
Total K-12 ADM	1607	1590	1572	1592	1559	1549
ADM Change	-42	-17	-18	20	-33	-10
Percent Change	-2.5%	-1.0%	-1.1%	1.3%	-2.1	-.06

INDEPENDENT SCHOOL DISTRICT NO. 111
WATERTOWN, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2015
(Continued)

The following schedule presents a summary of General Fund revenues:

**Table A-4
General Fund Revenues**

	Year Ended		Change	
	June 30, 2015	June 30, 2014	Increase (Decrease)	Percentage
Local sources:				
Property taxes	\$ 1,255,899	\$ 813,311	\$ 442,588	54.42%
Investment income	411	2,529	(2,118)	-83.75%
Other	716,453	933,401	(216,948)	-23.24%
State sources:	13,232,609	12,989,749	242,860	1.87%
Federal sources:	472,279	475,668	(3,389)	-0.71%
 Total General Fund revenue	 <u>\$ 15,677,651</u>	 <u>\$ 15,214,658</u>	 <u>\$ 462,993</u>	 <u>3.04%</u>

Total General Fund revenue increased by \$462,993, or about 3% from the previous year. Basic general education revenue is determined by multiple state formulas, largely enrollment driven, and consists of an equalized mix of property tax and state aid revenue. Other state-authorized revenue including operating levy referendum and the property tax shift also involve an equalized mix of property tax and state aid revenue. Therefore, the mix of property tax and state aid can change significantly from year to year without any net change on total revenue. The increase in revenue was primarily due to an increase in the general education entitlement formula.

The following schedule presents a summary of General Fund expenditures:

**Table A-5
General Fund Expenditures**

	Year Ended		Change	
	June 30, 2015	June 30, 2014	Increase (Decrease)	Percentage
Salaries	\$ 9,000,466	\$ 8,638,884	\$ 361,582	4.19%
Employee benefits	2,754,876	2,682,548	72,328	2.70%
Purchased services	3,069,716	3,088,545	(18,829)	-0.61%
Supplied and materials	420,670	503,804	(83,134)	-16.50%
Capital expenditures	336,684	305,832	30,852	10.09%
Other expenditures	164,416	139,693	24,723	17.70%
 Total General Fund expenditures	 <u>\$ 15,746,828</u>	 <u>\$ 15,359,306</u>	 <u>\$ 387,522</u>	 <u>2.52%</u>

Total General Fund expenditures increased \$387,522 or about 3% from the prior year. This is primarily due staff salary and benefit increases.

INDEPENDENT SCHOOL DISTRICT NO. 111
WATERTOWN, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2015
(Continued)

General Fund Budgetary Highlights

The General Fund adopted an original revenue and other financing sources budget of \$15,816,181 which was revised to \$15,567,819 as a result of a decrease in student enrollment from original projections.

The General Fund adopted an original expenditure and other financing uses budget of \$15,983,199 which was revised to \$15,714,608. The decrease in expenditures was necessary due to the decreases in revenue.

The District's final budget for the General Fund anticipated that expenditures would exceed revenues by \$146,789 the actual results for the year showed expenditures exceeding revenues and other financing sources by \$68,827.

- Actual revenues and other financing sources were \$110,182 more than anticipated due to increased state aid and levy revenues.
- Expenditures were \$32,220 more than anticipated.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Asset

By the end of fiscal year 2015, the District had invested \$73,699,076 in a broad range of capital assets, including land, school buildings, athletic facilities, computer and audio-visual equipment, and administrative offices (see Table A-7). More detailed information about the District's capital assets is presented in Note 3 to the financial statements. Total depreciation expense for the fiscal year 2015 was \$1,599,184.

**Table A-6
The District's Capital Assets**

	2015	2014
Land	\$ 26,700	\$ 26,700
Land Improvements	414,769	414,769
Buildings and Improvements	71,284,843	71,280,317
Equipment	1,972,764	1,893,519
Less: Accumulated Depreciation	(16,825,402)	(15,226,219)
Total	\$ 56,873,674	\$ 58,389,086

INDEPENDENT SCHOOL DISTRICT NO. 111
WATERTOWN, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2015
(Continued)

Debt Administration

At June 30, 2015, the District had \$70,565,000 in general obligation bonds payable. Under current state statutes, the District's general obligation bonded debt issuances are subject to a legal limitation of 10 percent of the fair market value of property in the District. The District is within its legal authority for bonded debt. More detailed information about the District's long-term liabilities is presented in Note 4 to the financial statements.

**Table A-7
The District's Long-Term Debt**

	2015	2014 Restated
General Obligation Bonds	\$ 70,565,000	\$ 73,330,000
Net Bond Premium and Discount	2,398,406	2,635,829
Certificates of Participation	880,930	942,249
Capital Lease		33,684
Compensated Absences	162,820	98,683
Net pension liability	9,020,851	11,098,093
Total	\$ 83,028,007	\$ 88,138,538
Long-term Liabilities		
Due within one year	\$ 5,195,770	\$ 3,097,426
Due in more than one year	77,832,237	85,041,112
Total	\$ 83,028,007	\$ 88,138,538

FACTORS BEARING ON THE DISTRICT'S FUTURE

- Projecting enrollment is a struggle for many school districts including Watertown-Mayer School District.
- District should continue to invest in technology for student and staff.
- Maintain and strengthen educational programming for all students.
- Continue to meet the increasing demands of special education needs within the District.
- Board established strategic plan and long range strategic directions to shape and guide decisions making across the District.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact the Business Office, Independent School District No. 111, 1001 Highway 24 NW, Watertown, MN 55388-0939.

BASIC FINANCIAL STATEMENTS

INDEPENDENT SCHOOL DISTRICT NO. 111
WATERTOWN, MINNESOTA

STATEMENT OF NET POSITION
JUNE 30, 2015

	Governmental Activities
Assets and Deferred Outflows of Resources	
Current assets	
Cash and cash equivalents	\$ 4,518,427
Current property taxes receivable	3,200,166
Delinquent property taxes receivable	194,962
Accounts receivable	12,325
Due from other Minnesota school districts	51,198
Due from Minnesota Department of Education	1,078,664
Due from federal government through the Minnesota Department of Education	381,480
Due to other governments	25,111
Inventory	11,190
Prepaid expenses	86,085
Total current assets	9,559,608
Noncurrent assets	
Restricted - Cash and investments held in escrow	26,327,520
Net OPEB asset	122,849
Capital assets, net of depreciation	
Assets not being depreciated	26,700
Assets being depreciated, net	56,846,974
Total capital assets, net of depreciation	56,873,674
Deferred Outflows of Resources	
Items related to pension plans	1,567,581
Total assets and deferred outflows of resources	\$ 94,451,232
Liabilities, Deferred Inflows of Resources, and Net Position	
Current liabilities	
Salaries payable	\$ 543,788
Accounts payable	154,752
Accrued payroll taxes	559,523
Accrued interest payable	1,129,547
Due to other Minnesota school districts	143,725
Due to other governmental units	77,945
Unearned revenue	17,614
Current portion of long-term liabilities	5,195,770
Total current liabilities	7,822,664
Long-term liabilities	77,832,237
Total liabilities	85,654,901
Deferred Inflows of Resources	
Property taxes levied for subsequent year's expenditures	5,652,145
Items related to pension plans	2,789,636
Total deferred inflows of resources	8,441,781
Net position	
Net investment in capital assets	12,238,674
Restricted	114,799
Unrestricted (deficit)	(11,998,923)
Total net position	354,550
Total liabilities, deferred inflows of resources, and net position	\$ 94,451,232

See accompanying notes to financial statements.

INDEPENDENT SCHOOL DISTRICT NO. 111
WATERTOWN, MINNESOTA

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2015

<u>Functions/Programs</u>	<u>Expenses</u>	Program Revenues		Net (Expenses) Revenue and Changes in Net Position
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>
Governmental activities				
District and school administration	\$ 826,947	\$	\$	\$ (826,947)
District support services	496,543			(496,543)
Regular instruction	6,913,909	385,544	432,118	(6,096,247)
Vocational instruction	243,022		138,299	(104,723)
Exceptional instruction	3,021,284	132,265	1,801,002	(1,088,017)
Instructional support services	802,075	48,559		(753,516)
Pupil support services	1,516,312			(1,516,312)
Sites, buildings and equipment	3,166,113			(3,166,113)
Fiscal and other fixed program costs	88,779			(88,779)
Food service	762,915	470,985	313,916	21,986
Community service	1,139,563	712,383	225,547	(201,633)
Interest and fiscal charges on long-term debt	2,577,960			(2,577,960)
Total governmental activities	\$ 21,555,422	\$ 1,749,736	\$ 2,910,882	(16,894,804)
General revenues				
Taxes				
Property taxes, levied for general purposes				1,250,614
Property taxes, levied for community service				279,754
Property taxes, levied for debt service				4,041,931
State aid-formula grants				12,075,494
Other general revenues				148,700
Investment earnings				51,665
Total general revenues				17,848,158
Change in net position				953,354
Net position (deficit), beginning of the year, restated				(598,804)
Net position, end of the year				\$ 354,550

See accompanying notes to financial statements.

INDEPENDENT SCHOOL DISTRICT NO. 111
WATERTOWN, MINNESOTA

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2015

	General Fund	Food Service Fund	Community Service Fund	Debt Service Fund	Total Governmental Funds
Assets					
Cash and cash equivalents	\$ 1,553,900	\$ 52,378	\$ 176,783	\$ 2,735,366	\$ 4,518,427
Cash and investments held in escrow				26,327,520	26,327,520
Current property taxes receivable	740,072		116,041	2,344,053	3,200,166
Delinquent property taxes receivable	54,515		7,227	133,220	194,962
Accounts receivable	7,121	360	4,844		12,325
Due from other Minnesota school districts	42,425		8,773		51,198
Due from the Minnesota Department of Education	971,121	12,243	23,570	71,730	1,078,664
Due from the federal government through the Minnesota Department of Education	352,890	28,472	118		381,480
Due from other governments	25,111				25,111
Inventory	1,773	9,417			11,190
Prepaid expenses	85,265		820		86,085
Total assets	<u>3,834,193</u>	<u>102,870</u>	<u>338,176</u>	<u>31,611,889</u>	<u>35,887,128</u>
Deferred Outflows of Resources					
Total assets and deferred outflows of resources	<u>\$ 3,834,193</u>	<u>\$ 102,870</u>	<u>\$ 338,176</u>	<u>\$ 31,611,889</u>	<u>\$ 35,887,128</u>
Liabilities					
Salaries payable	\$ 490,944	\$	\$ 52,844	\$	\$ 543,788
Accounts payable	95,751	51,095	7,906		154,752
Accrued payroll taxes	559,523				559,523
Due to other Minnesota school districts	143,104		621		143,725
Due to other governmental units	77,525	420			77,945
Unearned revenue	898	16,716			17,614
Total liabilities	<u>1,367,745</u>	<u>68,231</u>	<u>61,371</u>		<u>1,497,347</u>
Deferred Inflows of Resources					
Delinquent property taxes	54,515		7,227	133,220	194,962
Property taxes levied for subsequent year's expenditures	1,191,185		209,389	4,251,571	5,652,145
Total deferred inflows of resources	<u>1,245,700</u>		<u>216,616</u>	<u>4,384,791</u>	<u>5,847,107</u>
Fund balances					
Nonspendable	87,038	9,417	820		97,275
Restricted	13,335	25,222	69,015	27,227,098	27,334,670
Assigned	45,295				45,295
Unassigned	1,075,080		(9,646)		1,065,434
Total fund balances	<u>1,220,748</u>	<u>34,639</u>	<u>60,189</u>	<u>27,227,098</u>	<u>28,542,674</u>
Total liabilities, deferred inflows of resources and fund balance	<u>\$ 3,834,193</u>	<u>\$ 102,870</u>	<u>\$ 338,176</u>	<u>\$ 31,611,889</u>	<u>\$ 35,887,128</u>

See accompanying notes to financial statements.

INDEPENDENT SCHOOL DISTRICT NO. 111
WATERTOWN, MINNESOTA

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET POSITION
GOVERNMENTAL FUNDS
JUNE 30, 2015

Total fund balances - governmental funds	\$ 28,542,674
Amounts reported for governmental activities in the statement of activities are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.	
Cost of capital assets	73,699,076
Less accumulated depreciation	(16,825,402)
Long-term liabilities, including bonds payable, capital lease payable, and compensated absences payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Also, governmental funds report the effect of premiums and discounts when debt is first issued, whereas these amounts are deferred and amortized in the statement of net position.	
General Obligation Bonds	(70,565,000)
Certificates of participation	(880,930)
OPEB Obligation	122,849
Compensated absences	(162,820)
Unamortized bond premiums and discounts	(2,398,406)
The net pension liability and the deferred outflows of resources and inflow of resources related to pensions are only reported in the statement of net position.	
Net pension liability	(9,020,851)
Deferred inflows of resources related to pensions	(2,789,636)
Deferred outflows of resources related to pensions	1,567,581
Delinquent property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds.	
	194,962
Governmental funds do not report a liability for accrued interest until due and payable.	
	<u>(1,129,547)</u>
Total net position - governmental activities	<u>\$ 354,550</u>

See accompanying notes to financial statements.

INDEPENDENT SCHOOL DISTRICT NO. 111
WATERTOWN, MINNESOTA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2015

	General Fund	Food Service Fund	Community Service Fund	Debt Service Fund	Total Governmental Funds
Revenues					
Local property tax levies	\$ 1,255,899	\$	\$ 280,290	\$ 4,049,788	\$ 5,585,977
Other local and county revenues	678,892		729,025		1,407,917
Revenue from state sources	13,232,609	50,885	230,948	717,290	14,231,732
Revenue from federal sources	472,279	263,031	957		736,267
Investment income	411			51,254	51,665
Sales and other conversion of assets	37,561	470,985			508,546
Total revenues	<u>15,677,651</u>	<u>784,901</u>	<u>1,241,220</u>	<u>4,818,332</u>	<u>22,522,104</u>
Expenditures					
Current					
District and school administration	826,180				826,180
District support services	492,635				492,635
Regular instruction	6,900,838				6,900,838
Vocational instruction	242,861				242,861
Exceptional instruction	3,020,740				3,020,740
Community education and services			1,128,491		1,128,491
Instructional support services	764,401				764,401
Pupil support services	1,433,773	762,915	71,142		2,267,830
Site, buildings, and equipment	1,639,937				1,639,937
Fiscal and other fixed cost programs	88,779				88,779
Debt service					
Principal	95,003			2,765,000	2,860,003
Interest and other fiscal costs	36,961			1,948,983	1,985,944
Capital outlay	204,720		8,557		213,277
Total expenditures	<u>15,746,828</u>	<u>762,915</u>	<u>1,208,190</u>	<u>4,713,983</u>	<u>22,431,916</u>
Excess (deficiency) of revenues over expenditures	(69,177)	21,986	33,030	104,349	90,188
Other financing sources (uses)					
Sale of capital assets	350				350
Interest paid from escrow				(873,600)	(873,600)
Total other financing sources (uses)	<u>350</u>			<u>(873,600)</u>	<u>(873,250)</u>
Net change in fund balance	(68,827)	21,986	33,030	(769,251)	(783,062)
Fund balance, beginning	<u>1,289,575</u>	<u>12,653</u>	<u>27,159</u>	<u>27,996,349</u>	<u>29,325,736</u>
Fund balance, ending	<u>\$ 1,220,748</u>	<u>\$ 34,639</u>	<u>\$ 60,189</u>	<u>\$ 27,227,098</u>	<u>\$ 28,542,674</u>

See accompanying notes to financial statements.

INDEPENDENT SCHOOL DISTRICT NO. 111
WATERTOWN, MINNESOTA

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES TO THE STATEMENT OF ACTIVITIES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2015

Total net changes in fund balances - governmental funds	\$ (783,062)
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the costs of those assets is allocated over the estimated useful lives as depreciation expense.	
Cost of capital assets	83,772
Depreciation expense	(1,599,184)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. Also, governmental funds report the effect of premiums and discounts when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.	
General Obligation Bonds	2,765,000
Certificates of participation	61,319
Capital leases	33,684
Amortization of bond premiums	237,423
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due. However, interest expense is recognized as the interest accrues, regardless of when it is due.	
	44,161
Vested employee benefits are reported in the governmental funds when amounts are paid. The statement of activities reports the value of benefits earned during the year.	
Change in net OPEB obligation	(14,297)
Change in compensated absences	(64,137)
Change in deferred outflows of resources related to pensions	914,747
Change in deferred inflows of resources related to pensions	(2,789,636)
Change in pension liability	2,077,242
Delinquent property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditure, and therefore are deferred in the funds.	
	(13,678)
Change in net position - governmental activities	\$ 953,354

See accompanying notes to financial statements.

INDEPENDENT SCHOOL DISTRICT NO. 111
WATERTOWN, MINNESOTA

STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2015

	Budget		Actual	Variance Over (Under)
	Original	Final		
Revenues				
Local property tax levies	\$ 1,376,671	\$ 1,194,167	\$ 1,255,899	\$ 61,732
Other local and county revenues	619,065	694,420	678,892	(15,528)
Revenue from state sources	13,264,171	13,159,089	13,232,609	73,520
Revenue from federal sources	433,774	482,088	472,279	(9,809)
Interest income	2,500	2,500	411	(2,089)
Sales and other conversions of assets	120,000	35,555	37,561	2,006
Total revenues	<u>15,816,181</u>	<u>15,567,819</u>	<u>15,677,651</u>	<u>109,832</u>
Expenditures				
Current				
District and school administration	958,269	854,116	826,180	(27,936)
District support services	349,631	471,305	492,635	21,330
Regular instruction	6,716,959	6,921,015	6,900,838	(20,177)
Vocational instruction	181,959	187,974	242,861	54,887
Exceptional instruction	3,172,268	2,971,224	3,020,740	49,516
Instructional support services	812,149	800,178	764,401	(35,777)
Pupil support services	1,330,994	1,396,061	1,433,773	37,712
Site, buildings, and equipment	1,670,613	1,705,031	1,639,937	(65,094)
Fiscal and other fixed cost programs programs	86,000	88,740	88,779	39
Debt service				
Principal	61,320	93,070	95,003	1,933
Interest and other fiscal costs	36,962	36,962	36,961	(1)
Capital outlay	230,340	188,932	204,720	15,788
Total expenditures	<u>15,607,464</u>	<u>15,714,608</u>	<u>15,746,828</u>	<u>32,220</u>
Excess (deficiency) of revenues over expenditures	208,717	(146,789)	(69,177)	77,612
Other financing sources (uses)				
Sale of capital assets			350	350
Transfers out	(375,735)			
Total other financing sources (uses)	<u>(375,735)</u>		<u>350</u>	<u>350</u>
Net change in fund balance	<u>\$ (167,018)</u>	<u>\$ (146,789)</u>	<u>(68,827)</u>	<u>\$ 77,962</u>
Fund balance, beginning			<u>1,289,575</u>	
Fund balance, ending			<u>\$ 1,220,748</u>	

See accompanying notes to financial statements.

INDEPENDENT SCHOOL DISTRICT NO. 111
WATERTOWN, MINNESOTA

STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOOD SERVICE FUND
FOR THE YEAR ENDED JUNE 30, 2015

	Budget		Actual	Variance Over (Under)
	Original	Final		
Revenues				
Revenue from state sources	\$ 50,871	\$ 50,871	\$ 50,885	\$ 14
Revenue from federal sources	259,106	259,106	263,031	3,925
Sales and other conversion of assets	471,717	471,717	470,985	(732)
Total revenues	<u>781,694</u>	<u>781,694</u>	<u>784,901</u>	<u>3,207</u>
Expenditures				
Current				
Pupil support services	784,106	784,106	762,915	(21,191)
Net change in fund balance	<u>\$ (2,412)</u>	<u>\$ (2,412)</u>	21,986	<u>\$ 24,398</u>
Fund balance, beginning			<u>12,653</u>	
Fund balance, ending			<u>\$ 34,639</u>	

See accompanying notes to financial statements.

INDEPENDENT SCHOOL DISTRICT NO. 111
WATERTOWN, MINNESOTA

STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
COMMUNITY SERVICE FUND
FOR THE YEAR ENDED JUNE 30, 2015

	Budget		Actual	Variance Over (Under)
	Original	Final		
Revenues				
Local property tax levies	\$ 285,452	\$ 287,452	\$ 280,290	\$ (7,162)
Other local and county revenues	670,340	715,390	729,025	13,635
Revenue from state sources	220,627	247,183	230,948	(16,235)
Revenue from federal sources	630	630	957	327
Total revenues	<u>1,177,049</u>	<u>1,250,655</u>	<u>1,241,220</u>	<u>(9,435)</u>
Expenditures				
Current				
Community education and services	1,103,872	1,148,904	1,128,491	(20,413)
Pupil support services	72,556	72,898	71,142	(1,756)
Capital outlay	12,500	14,620	8,557	(6,063)
Total expenditures	<u>1,188,928</u>	<u>1,236,422</u>	<u>1,208,190</u>	<u>(28,232)</u>
Net change in fund balance	<u>\$ (11,879)</u>	<u>\$ 14,233</u>	33,030	<u>\$ 18,797</u>
Fund balance, beginning			<u>27,159</u>	
Fund balance, ending			<u>\$ 60,189</u>	

See accompanying notes to financial statements.

INDEPENDENT SCHOOL DISTRICT NO. 111
WATERTOWN, MINNESOTA

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2015

	Private- Purpose Trust	Agency Funds
	<u> </u>	<u> </u>
Assets		
Cash and cash equivalents	\$ 81,400	\$ 135,974
	<u> </u>	<u> </u>
Liabilities		
Due to others	\$	\$ 2,882
Due to students		133,092
Total liabilities		<u>135,974</u>
	<u> </u>	<u> </u>
Net position		
Restricted for postemployment benefits	81,400	
	<u> </u>	<u> </u>
Total liabilities and net position	<u>\$ 81,400</u>	<u>\$ 135,974</u>

See accompanying notes to financial statements.

INDEPENDENT SCHOOL DISTRICT NO. 111
WATERTOWN, MINNESOTA

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2015

	Private- Purpose Trust
Additions	
Contributions	\$ 21,875
Investment earnings	92
Total additions	21,967
Deductions	33,710
Change in net position	(11,743)
Net position, beginning of the year	93,143
Net position, end of the year	\$ 81,400

See accompanying notes to financial statements.

INDEPENDENT SCHOOL DISTRICT NO. 111
WATERTOWN, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Independent School District No. 111 (District) was formed and operates pursuant to applicable Minnesota laws and statutes. The Governing Body consists of a seven-member School Board elected by voters of the District. Members are elected for three-year terms. The accounting policies of the District conform to accounting principles generally accepted in the United States as applied to government units. The Governmental Accounting Standards Board is the accepted standard setting board for establishing governmental accounting and financial reporting principles.

Reporting Entity

The District's financial statements include all funds, departments, agencies, boards, commissions, and other component units for which the District is considered to be financially accountable or for which the exclusion would render the financial statements to be misleading. The District has considered all potential units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. Based on criteria established by the Government Accounting Standards Board, there are no organizations considered to be component units of the District.

Extracurricular student activities are determined primarily by student participants under the guidance of an adult and are generally conducted outside of school hours. In accordance with Minnesota Statutes, the District's School Board has elected not to control or be otherwise financially accountable with respect to the underlying extracurricular activities.

Basic Financial Statement Presentation

The government-wide financial statements (i.e. the statement of net position and the statement of activities) display information about the reporting government as a whole. These statements include all the financial activities of the District, except for the fiduciary funds. The fiduciary funds are only reported in separate financial statements at the fund financial statement level.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

The District applies restricted resources first when an expense is incurred for purpose for which both restricted and unrestricted resources are available. Depreciation expense can be specifically identified by function and is included in the direct expenses of each function. Interest on long-term debt is considered an indirect expense and is reported separately on the Statement of Activities. Generally, the effect of material interfund activity has been removed from the government-wide financial statements.

INDEPENDENT SCHOOL DISTRICT NO. 111
WATERTOWN, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015
(Continued)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Separate fund financial statements are provided for governmental and fiduciary funds. Major individual governmental funds are reported as a separate column in the fund financial statements. The District chooses to present each of its governmental funds as a major fund.

The fiduciary funds are presented in the fiduciary fund financial statements by type. Since by definition these assets are being held for the benefit of a third party (employees and student groups) and cannot be used to address activities or obligations of the District, these funds are not incorporated into the government-wide statements.

Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied is determined by its measurement focus and basis of accounting. The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are generally recognized as revenues in the fiscal year for which they are levied, except for amounts recognized in accordance with a statutory "tax shift" described later in these notes. Grants and similar items are recognized when all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this basis of accounting transactions are recorded in the following manner:

1. Revenue Recognition - Revenue is recognized when it becomes measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Property tax revenue is generally considered as available if collected within 60 days after year-end. State revenue is recognized in the year in which it applies according to Minnesota Statutes. Minnesota Statutes include state aid funding formulas for specific fiscal years. Federal revenue is recorded in the year in which the related expenditure is made. Other revenue is considered available if collected within one year.
2. Recording of Expenditures - Expenditures are generally recorded when a liability is incurred. However, expenditures are recorded as prepaid for approved disbursements or liabilities incurred in advance of the year in which the item is to be used. Principal and interest on long-term debt issues are recognized on their due dates.

A general summary of the nature and purpose of each of the funds maintained by the District follows:

Major Governmental Funds

The District chooses to present all governmental funds as major funds.

General Fund - This fund is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund. The general fund accounts for: administration, kindergarten through 12th grade instruction, transporting students to and from school, maintenance of facilities, equipment purchases, health and safety projects, and disabled accessibility projects.

INDEPENDENT SCHOOL DISTRICT NO. 111
WATERTOWN, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015
(Continued)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Debt Service Fund - Debt Service Funds account for the accumulation of resources for, and the payment of, general long-term obligation principal and interest. Assets of the Debt Service Fund are restricted to the payment of bond principal and interest.

Special Revenue Funds - These funds are used to account for the proceeds of specific revenue sources that are restricted by law or administrative action to expenditure for specified purposes. The District's has two special revenue funds:

Food Service Fund - is used to account for food service revenues and expenditures. Revenues consist of state and federal aids and grants and sales to pupils and adults.

Community Service Fund - is used to account for services provided to residents in the areas of recreation, civic activities, nonpublic pupils, adult or early childhood programs, K-6 extended day programs, or other similar services. Revenues consist of state and federal aids and grants and program participant fees.

Fiduciary Funds

Private Purpose Trust Fund - This fund is used for reporting resources that are to be used for scholarships to support students that continue their education

Agency Fund - This fund is used to account for assets that the District holds on behalf of others as their agent, which includes the Student Activity Fund and other third parties. The Student Activity Fund is not under board control.

Budgeting

Formal budgetary accounting is employed as a management control for all funds of the District. For each fund for which a formal budget is adopted, the budget is prepared on the same basis of accounting as the financial statements. The budget is adopted through passage of a resolution. The School Board must approve revisions. Legal budgetary control is at the fund account level. The annual budget is not legally binding on the District unless the District has a total deficit in its general fund that exceeds 2.5 percent of expenditures.

Cash and Investments

Cash and investments of the individual funds are combined to form a pool and are invested to the extent available in various securities as authorized by state law, except the proceeds from the debt refunding, which were placed in an escrow account and the student activity accounts. Earnings from the pooled investments are allocated to the respective funds on the basis of average cash balance participation by each fund.

Investments are stated at fair value.

INDEPENDENT SCHOOL DISTRICT NO. 111
WATERTOWN, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015
(Continued)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Receivables

All receivables are shown net of any allowance for uncollectible amounts. No substantial losses are anticipated therefore no allowances for uncollectible accounts have been recorded. The only receivables not expected to be collected within one year are current property taxes receivable.

Inventory

The District maintains no central stores and, therefore, expenses supply items as purchased. However, inventories for food items have been recorded in the proper funds. The District values its inventories at cost, on a first-in, first-out basis.

Prepaid Expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items. Prepaid items are reported using the consumption method and recorded as an expenditure at the time of consumption.

Property Taxes

Property taxes are set by the School Board and certified to the county auditor who acts as collecting agent, in December, of the year prior to collection. Taxes become a lien on property on the following January 1. Minnesota school districts operate under a levy limitation law that generally limits annual increases in taxes per capita. This law does not cover levies for bonded indebtedness.

Taxpayers, in two equal installments on May 15 and October 15, may pay real property taxes. Personal property taxes may be paid on February 28 and June 30. The county provides tax settlements to school districts and other taxing districts in January, March, June, and November or December. Portions of the tax levy paid by the state in the form of credits are included in revenue from state sources.

Generally, tax revenue is recognized in the fiscal year ending June 30, following the calendar year in which the tax levy is collectible, while the current calendar year tax levy is recorded as deferred inflows of resources (property taxes levied for subsequent year). General fund revenue is determined annually by statutory funding formulas. These formulas allocate revenue between property taxes and state aids based on education funding priorities set by the Minnesota State Legislature. Changes in this allocation result in an annual change in property tax revenue recognition referred to as the "tax shift". In prior years, the amount of shift has varied between 0 and 50 percent.

The following is a summary of tax shift transactions by fund:

	(0.0%) Total Shift June 30, 2014	State Aid Adjustment	Revenue Adjustment	(0.0%) Total Shift June 30, 2015
General Fund	\$ 112,797		\$ 33,331	\$ 146,128

INDEPENDENT SCHOOL DISTRICT NO. 111
WATERTOWN, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015
(Continued)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxes that remain unpaid are classified as delinquent taxes receivable. Revenue from these delinquent property taxes that is not collected within 60 days of year-end is deferred in the fund based financial statements because it is not known to be available to finance the operations of the District in the current year. No allowance for uncollectible taxes is considered necessary.

Capital Assets

Capital assets are capitalized at historical cost based at cost if purchased; donated assets are recorded as capital assets at their estimated fair market value at the date of donation. The District maintains a threshold level of \$2,500 or more for capitalizing capital assets. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are recorded in the government-wide financial statements, but are not reported in the fund financial statements. Capital assets are depreciated using the straight-line method over their estimated useful lives. Useful lives vary from, 20 to 50 years for land improvements and buildings, and 5 to 15 years for equipment.

Capital assets not being depreciated include land.

The District does not possess any material amounts of infrastructure capital assets. Items such as sidewalks and other land improvements are considered to be part of the cost of buildings or other improvable property.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has reported deferred outflows related to pensions for its proportionate shares of collective deferred outflows of resources related to pensions and the District's contributions to pension plans subsequent to the measurement date of the collective net pension liability.

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has reported unavailable revenue from delinquent property taxes, which arises only under a modified accrual basis of accounting, in the governmental funds balance sheet. The District has also reported property taxes levied for subsequent years expenditures as a deferred inflow of resources in both the governmental funds balance sheet and the statement of net position. The District has also reported deferred inflows of resources for its proportionate shares of the collective deferred inflows of resources related to pensions.

Long-term Obligations

In the governmental-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight line method.

INDEPENDENT SCHOOL DISTRICT NO. 111
WATERTOWN, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015
(Continued)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses.

Compensated Absences

Employees earn vacation pay at rates dependent upon each employee labor contract. Outstanding vacation liabilities are payable upon termination of employment. At June 30, 2015, unpaid vacation pay totaling \$162,820 is recorded as a payable in the statement of net position. Sick pay does not vest and is accounted for as an expenditure when paid.

Pensions

For the purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about fiduciary net position of the Teachers Retirement Association (TRA) and Public Employees Retirement Association (PERA) and additions to/deductions from TRA and PERA's fiduciary net position have been determined on the same basis as they are reported by TRA and PERA. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

TRA has a special funding situation created by direct aid contributions made by the State of Minnesota, City of Minneapolis and Minneapolis School District. The direct aid is a result of the merger of the Minneapolis Teachers Retirement Fund Association merger into TRA in 2006. Additional information can be found in Note 8.

Other Postemployment Benefits (OPEB)

The District provides postemployment health insurance benefits to some retired employees as established by contracts with bargaining units or other employment contracts.

Fund Balance

In the fund financial statements, governmental funds report fund balance amounts within one of the following fund balance categories: nonspendable, restricted, committed, assigned or unassigned. Nonspendable fund balance consists of amounts that cannot be spent because it is not in spendable form. Restricted fund balance consists of amounts related to externally imposed constraints established by creditors, grantors, or contributors; or constraints imposed by state statutory provision. Committed fund balance consists of amounts that are constrained for specific purposes that are internally imposed by a formal action of the School Board. The District had no committed fund balance at June 30, 2015. Assigned fund balance consists of amounts intended to be used for specific purposes but do not meet the criteria to be classified as restricted or committed. The portion of the fund balance not nonspendable, restricted, committed or assigned is reported as unassigned fund balance. The District applies restricted resources first when an expense is incurred for the purpose for which both restricted and unrestricted resources are available. If resources from more than one fund balance classification could be spent, the District will strive to spend resources from fund balance classifications in the following order: restricted, committed, assigned, and unassigned.

INDEPENDENT SCHOOL DISTRICT NO. 111
WATERTOWN, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015
(Continued)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In accordance with the District's fund balance policy, formal board action is required to establish, modify or rescind a fund balance commitment and the District's management is authorized to assign fund balance to a specific purpose.

The District has a minimum fund balance policy. The goal is to maintain an unassigned fund balance in the General Fund equal to three percent of the annual expenditure budget. At June 30, 2015, the District had met the minimum fund balance goal.

Net Position

Net position represents the difference between assets and liabilities in the government-wide and fiduciary fund financial statements. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets. Net position is reported as restricted in the government-wide financial statement when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, laws or regulations of other governments.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

Implementation of New Standards

During fiscal year 2015, the District adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*. The statements establish standards of accounting and financial reporting for defined benefit pensions provided to employees of local governmental employers. Implementation resulted in recognition of pension expense as well as the reporting of deferred outflows and inflows of resources and a net position liability based on the District's proportional share of those of the plan. The adoption resulted in the restatement of Net Position at June 30, 2014 as follows:

Net Position, as previously reported, at June 30, 2014	\$ 9,846,455
TRA Net pension liability at June 30, 2014	(8,386,944)
TRA deferred outflows of resources at June 30, 2014	463,210
PERA Net pension liability at June 30, 2014	(2,711,149)
PERA deferred outflows of resources at June 30, 2014	<u>189,624</u>
Net Position (deficit), as restated, at June 30, 2014	<u>\$ (598,804)</u>

INDEPENDENT SCHOOL DISTRICT NO. 111
WATERTOWN, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015
(Continued)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Subsequent Events

In preparing these financial statements, the District has evaluated events and transactions for potential recognition or disclosure through November 9, 2015, the date the financial statements were available to be issued.

NOTE 2 DEPOSITS AND INVESTMENTS

Deposits

In accordance with Minnesota Statutes, the School District maintains deposits at those depository banks authorized by the school board.

Minnesota Statutes require that all deposits be protected by federal deposit insurance, corporate surety bond, or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by federal deposit insurance or corporate surety bonds. Authorized collateral includes treasury bills, notes and bonds; issues of U.S. Government agencies; general obligations rated "A" or better; revenue obligations rated "AA" or better; irrevocable standard letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota Statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral.

Custodial Credit Risk - Deposits - Custodial credit risk is the risk that in the event of a financial institution failure, the District's deposits may not be returned to it. The District requires collateral for deposits over FDIC insurance amounts. At June 30, 2015 the District's deposits were not exposed to custodial credit risk.

INDEPENDENT SCHOOL DISTRICT NO. 111
WATERTOWN, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015
(Continued)

NOTE 2 DEPOSITS AND INVESTMENTS (Continued)

Investments

The District may also invest idle funds as authorized by Minnesota statutes, as follows:

- Direct obligations or obligations guaranteed by the United States or its agencies.
- Shares of investment companies registered under the Federal Investment Company Act of 1940 and receives the highest credit rating, is rated in one of the two highest rating categories by a statistical rating agency, and all of the investments have a final maturity of thirteen months or less.
- General obligations rated "A" or better; revenue obligations rate "AA" or better.
- General obligations of the Minnesota Housing Finance Agency rated "A" or better; bankers' acceptances of United States' bank eligible for purchase by the Federal Reserve System.
- Commercial paper issued by United States' corporations or their Canadian subsidiaries, of the highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less.
- Guaranteed Investment Contracts guaranteed by a United States commercial bank, domestic branch of a foreign bank, or a United States insurance company, and with a credit quality in one of the top two highest categories.
- Repurchase or reverse purchase agreements and securities lending agreements with financial institutions qualified as a "depository" by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers.

The Minnesota School District Liquid Asset Fund (MSDLAF) and MN Trust Investment Shares Portfolio are regulated by the Minnesota Statutes and are external investment pools not registered with the Securities and Exchange Commission (SEC) that follows the same regulatory rules of the SEC under rule 2a7. The District's investment in MSDLAF and MN Trust Investment Shares Portfolio are measured at net asset value per share provided by the pool, which is based on an amortized cost method that approximates fair value.

Custodial Credit Risk - The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. At June 30, 2015, none of the District's investments were subject to custodial credit risk.

Concentration of Credit Risk - The concentration of credit risk is the risk of loss that may be caused by the District's investment in a single issuer. The District has no policy that would limit its investment in a single issuer.

Interest Rate Risk - Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of an investment. The District does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

INDEPENDENT SCHOOL DISTRICT NO. 111
WATERTOWN, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015
(Continued)

NOTE 2 DEPOSITS AND INVESTMENTS (Continued)

At June 30, 2015, the District had the following investments:

<u>Investment</u>	<u>Fair Value</u>	<u>Maturities</u>	
		<u>Less Than One Year</u>	<u>1 - 3 Years</u>
US agencies	\$ 26,326,843	\$ 26,326,843	\$
Negotiable certificates of deposit	1,993,812	1,993,812	
External Investment Pools	2,111,427	2,111,427	
Total	\$ 30,432,082	\$ 30,432,082	\$

Credit risk - Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. It is the District's policy to invest only in securities that meet the ratings requirements set by state statute.

<u>S & P or Moody's</u>	<u>Fair Value</u>
AAAm	\$ 2,111,427
AA+	26,326,843
Not rated	1,993,812
Total	\$ 30,432,082

The District's total deposits and investments are as follows:

Petty cash	\$ 890
Deposits	630,349
Investments	30,432,082
Total	\$ 31,063,321

Presented in the basic financial statements as follows:

Statement of Net Assets	
Cash and temporary cash investments	\$ 4,518,427
Restricted - Cash and investments held in escrow	26,327,520
Statement of Fiduciary Net Assets	
Private-Purpose Trust	
Cash and temporary cash investments	81,400
Agency Funds	
Cash and temporary cash investments	135,974
Total cash and investments	\$ 31,063,321

INDEPENDENT SCHOOL DISTRICT NO. 111
WATERTOWN, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015
(Continued)

NOTE 3 CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2015 is as follows:

	Balance July 1, 2014	Additions	Deletions	Balance June 30, 2015
Capital assets not being depreciated				
Land	\$ 26,700	\$	\$	\$ 26,700
Capital assets being depreciated				
Land improvements	414,769			414,769
Buildings	71,280,317	4,526		71,284,843
Equipment	1,893,518	79,246		1,972,764
Total capital assets being depreciated	<u>73,588,604</u>	<u>83,772</u>		<u>73,672,376</u>
Less accumulated depreciation				
Land improvements	349,213	12,812		362,025
Buildings	13,531,490	1,499,225		15,030,715
Equipment	1,345,515	87,147		1,432,662
Total accumulated depreciation	<u>15,226,218</u>	<u>1,599,184</u>		<u>16,825,402</u>
Total capital assets being depreciated, net	<u>58,362,386</u>	<u>(1,515,412)</u>		<u>56,846,974</u>
Capital assets, net	<u>\$ 58,389,086</u>	<u>\$ (1,515,412)</u>	\$	<u>\$ 56,873,674</u>

Depreciation is charged to governmental functions as follows:

District and school administration	\$ 767
District support services	384
Regular instruction	19,956
Vocational instruction	161
Exceptional instruction	258
Instructional support services	25,988
Pupil support services	11,397
Site, buildings, and equipment	1,537,758
Community education and services	<u>2,515</u>
Total	<u>\$ 1,599,184</u>

INDEPENDENT SCHOOL DISTRICT NO. 111
WATERTOWN, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015
(Continued)

NOTE 4 LONG-TERM OBLIGATIONS

	Balance July 1, 2014 <u>Restated</u>	<u>Additions</u>	<u>Reductions</u>	Balance June 30, 2015	Due Within One Year
General Obligation Bonds					
\$33,000,000 General Obligation School Building Bonds, Series 2005A due in annual installments of \$150,000 to \$2,975,000 plus interest from 3.75% to 5.0% starting February 2006 through February 2026.	\$ 27,705,000	\$	\$ 1,545,000	\$ 26,160,000	\$ 1,720,000
\$10,000,000 General Obligation School Building Bonds, Series 2006A due in annual installments of \$350,000 to \$1,160,000 plus interest from 3.8% to 3.9% starting August 2007 through February 2022.	7,165,000		885,000	6,280,000	975,000
\$8,385,000 General Obligation School Building Bonds, Series 2007A due in annual installments of \$255,000 to \$1,670,000 plus interest from 3.8% to 4.0% starting August 2007 through February 2026.	8,385,000			8,385,000	
\$1,210,000 General Obligation Equipment Certificates of Indebtedness, Series 2012A due in annual installments of \$235,000 to \$255,000 plus interest of 3.0% starting February 2013 through February 2018.	970,000		235,000	735,000	235,000
\$25,930,000 General Obligation School Building Refunding Bonds, Series 2012B due in annual installments of \$1,620,000 to \$2,775,000 plus interest from 3.0% to 4.0% starting August 2013 through February 2026.	25,930,000			25,930,000	1,620,000

INDEPENDENT SCHOOL DISTRICT NO. 111
WATERTOWN, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015
(Continued)

NOTE 4 LONG-TERM OBLIGATIONS (Continued)

	Balance July 1, 2014 Restated	Additions	Reductions	Balance June 30, 2015	Due Within One Year
\$3,175,000 General Obligation Alternative Facilities Bonds, Series 2013A due in annual installments of \$70,000 to \$340,000 plus interest from 0.4% to 3.0% starting February 2014 through February 2033.	3,175,000		100,000	3,075,000	340,000
Unamortized bond discounts and premiums	2,635,829		237,423	2,398,406	237,423
Total general obligation bonds	75,965,829		3,002,423	72,963,406	5,127,423
Certificates of Participation	942,249		61,319	880,930	68,347
Capital Lease	33,684		33,684		
Compensated Absences	98,683	137,948	73,811	162,820	
Net pension liability	11,098,093	241,094	2,318,336	9,020,851	
Total	\$ 88,138,538	\$ 379,042	\$ 5,489,573	\$ 83,028,007	\$ 5,195,770

Annual amounts required to service outstanding debt:

	General Obligation Bonds			Certificates of Participation		
	Principal	Interest	Total	Principal	Interest	Total
2016	\$ 4,890,000	\$ 2,707,827	\$ 7,597,827	\$ 68,347	\$ 34,356	\$ 102,703
2017	5,290,000	2,544,627	7,834,627	75,867	31,458	107,325
2018	5,635,000	2,360,647	7,995,647	83,908	28,246	112,154
2019	5,745,000	2,159,068	7,904,068	92,502	24,699	117,201
2020	5,980,000	1,928,573	7,908,573	101,681	20,794	122,475
2021 - 2025	33,745,000	5,794,270	39,539,270	458,625	36,387	495,012
2026 - 2030	8,495,000	470,731	8,965,731			
2031 - 2033	785,000	46,275	831,275			
Total	\$ 70,565,000	\$ 18,012,018	\$ 88,577,018	\$ 880,930	\$ 175,940	\$ 1,056,870

General Obligation Bonds and the General Obligation Equipment Certificates of Indebtedness are payable from the Debt Service Fund. The Certificates of Participation are payable from the General Fund. Compensated absences and net pension liability are paid from the General, Food Service, or Community Service Fund.

INDEPENDENT SCHOOL DISTRICT NO. 111
WATERTOWN, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015
(Continued)

NOTE 4 LONG-TERM OBLIGATIONS (Continued)

On September 15, 2012, the District issued \$25,930,000 General Obligation School Building Refunding Bonds, Series 2012B. The bonds were issued to crossover refund the General Obligation School Building Bonds, Series 2005A callable on August 1, 2015. The proceeds of this issuance have been placed in an escrow account. The proceeds, along with investment earnings will be sufficient to pay the outstanding debt on the call date. The refunding reduced the debt service payments by \$2,460,763 over the life of the bonds resulting in a net present value savings of \$2,110,300.

NOTE 5 OPERATING LEASE

The District incurs expenses under an operating lease for copiers. The lease agreement is for sixty months. Lease expense for June 30, 2015 was \$21,862. The following is a schedule by years of future minimum lease payments required under the operating lease:

<u>Years Ending</u>	
June 30, 2016	<u>\$ 14,575</u>

NOTE 6 NET POSITION/FUND BALANCES

Fund balances were nonspendable for the following purposes at June 30, 2015:

Nonspendable	
General Fund	
Prepaid expenses	\$ 85,265
Inventory	<u> 1,773</u>
Total General Fund	<u> 87,038</u>
Food Service Fund - Inventory	<u> 9,417</u>
Community Service Fund - Prepaid expenses	<u> 820</u>
Total nonspendable	<u>\$ 97,275</u>

INDEPENDENT SCHOOL DISTRICT NO. 111
WATERTOWN, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015
(Continued)

NOTE 6 NET POSITION/FUND BALANCES (Continued)

Net position and fund balances were restricted for the following purposes at June 30, 2015:

Restricted	<u>Net Position</u>	<u>Fund Balance</u>
General Fund		
Staff development	\$ 1,735	\$ 1,735
Deferred maintenance	2	2
Operating capital	11,598	11,598
Total general fund		<u>13,335</u>
 Food Service Fund		
Food service	25,222	<u>25,222</u>
 Community Service Fund		
Community education	63,005	63,005
Community service	13,237	6,010
Total community service fund		<u>69,015</u>
 Debt Service Fund		
Debt service		899,578
Bond refundings		26,327,520
Total debt service fund		<u>27,227,098</u>
 Total restricted	<u>\$ 114,799</u>	<u>\$ 27,334,670</u>

Fund balances were assigned for the following purposes at June 30, 2015:

Assigned	
General Fund	
Other postemployment benefits	<u>\$ 45,295</u>

INDEPENDENT SCHOOL DISTRICT NO. 111
WATERTOWN, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015
(Continued)

NOTE 6 NET POSITION/FUND BALANCES (Continued)

The following funds had fund balance deficits at June 30, 2015:

Restricted		
General		
Health and safety	\$	(123,088)
Restricted		
Community Service Fund		
ECFE		(1,128)
School readiness		(8,518)

The fund balance deficit for health and safety, ECFE and school readiness are allowable by the Minnesota Department of Education and will be eliminated through future tax levies, or fund transfers, if necessary.

NOTE 7 EXPENDITURES OVER BUDGET

The following funds had expenditures in excess of budget for the year ended June 30, 2015:

	<u>Budget</u>	<u>Expenditures</u>	<u>Excess</u>
General Fund	\$ 15,714,608	\$ 15,746,828	\$ 32,220
Debt Service Fund	4,547,045	4,713,983	166,938

NOTE 8 DEFINED BENEFIT PENSION PLANS

The District participates in the following cost-sharing multiple-employer defined benefit pension plans administered by Teachers Retirement Association (TRA) and Public Employees Retirement Association (PERA). TRA and PERA's defined benefit pension plans are established and administered in accordance with Minnesota Statutes, TRA and PERA's defined benefit pension plans are tax qualified plans under Section 401(a) of the Internal Revenue Code.

A. Teachers Retirement Fund (TRA)

1. Plan Description

TRA administers a Basic Plan (without Social Security coverage) and a Coordinated Plan (with Social Security coverage) in accordance with Minnesota Statutes, Chapters 354 and 356. TRA is a separate statutory entity and administered by a Board of Trustees. The Board consists of four active members, one retired member and three statutory officials.

INDEPENDENT SCHOOL DISTRICT NO. 111
WATERTOWN, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015
(Continued)

NOTE 8 DEFINED BENEFIT PENSION PLANS (Continued)

Teachers employed in Minnesota's public elementary and secondary schools, charter schools, and certain educational institutions maintained by the state (except those teachers employed by the cities of Duluth and St. Paul, and by the University of Minnesota system) are required to be TRA members. State university, community college, and technical college teachers first employed by the Minnesota State College and Universities (MnSCU) may elect TRA coverage within one year of eligible employment. Alternatively, these teachers may elect coverage through the Defined Contribution Retirement Plan (DCR) administered by MnSCU.

2. Benefits Provided

TRA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by Minnesota Statute and vest after three years of service credit. The defined retirement benefits are based on a member's highest average salary for any five consecutive years of allowable service, age, and a formula multiplier based on years of credit at termination of service.

Two methods are used to compute benefits for TRA's Coordinated and Basic Plan members. Members first employed before July 1, 1989, receive the greater of the Tier I or Tier II benefits as described:

Tier I Benefits

<u>Tier I</u>	<u>Step rate formula</u>	<u>Percentage</u>
Basic	1st ten years	2.2 percent per year
	All years after	2.7 percent per year
Coordinated	1 st ten years if service years are prior to July 1, 2006	1.2 percent per year
	1 st ten years if service years are July 1, 2006 or after	1.4 percent per year
	All other years of service if service years are prior to July 1, 2006	1.7 percent per year
	All other years of service if service years are July 1, 2006 or after	1.9 percent per year

With these provisions:

- (a) Normal retirement age is 65 with less than 30 years of allowable service and age 62 with 30 or more years of allowable service.
- (b) 3% per year early retirement reduction factors for all years under normal retirement age.
- (c) Unreduced benefits for early retirement under a Rule-of-90 (age plus allowable service equals 90 or more).

INDEPENDENT SCHOOL DISTRICT NO. 111
WATERTOWN, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015
(Continued)

NOTE 8 DEFINED BENEFIT PENSION PLANS (Continued)

Tier II Benefits

For years of service prior to July 1, 2006, a level formula of 1.7 percent per year for coordinated members and 2.7 percent per year for basic members. For years of service July 1, 2006 and after, a level formula of 1.9 percent per year for Coordinated members and 2.7 percent for Basic members applies. Beginning July 1, 2015, the early retirement reduction factors are based on rates established under Minnesota Statute. Smaller reductions, more favorable to the member, will be applied to individuals who reach age 62 and have 30 years or more of service credit.

Members first employed after June 30, 1989 receive only the Tier II calculation with a normal retirement age that is their retirement age for full social security retirement benefits, but not to exceed age 66.

Six different types of annuities are available to members upon retirement. The No Refund Life Plan is a lifetime annuity that ceases upon the death of the retiree - no survivor annuity is payable. A retiring member may also choose to provide survivor benefits to a designated beneficiary(ies) by selecting one of the five plans which have survivorship features. Vested members may also leave their contributions in the TRA Fund upon termination of service in order to qualify for a deferred annuity at retirement age. Any members terminating service are eligible for a refund of their employee contributions plus interest.

The benefit provisions stated apply to active plan participants. Vested, terminated employees who are entitled to benefits but not yet receiving them are bound by the plan provisions in effect at the time they last terminated their public service.

3. Contribution Rate

Per Minnesota Statutes, Chapter 354 sets the contribution rates for the employees and employers. Rates for each fiscal year were:

	Ending June 30, 2014		Ending June 30, 2015	
	Employee	Employer	Employee	Employer
Basic	10.50%	11.00%	11.00%	11.50%
Coordinated	7.00%	7.00%	7.50%	7.50%

The following is a reconciliation of employer contributions in TRA's CAFR "Statement of Changes in Fiduciary Net Position: to the employer contributions used in Schedule of Employer and Non-Employer Pension Allocations.

INDEPENDENT SCHOOL DISTRICT NO. 111
WATERTOWN, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015
(Continued)

NOTE 8 DEFINED BENEFIT PENSION PLANS (Continued)

Employer contributions reported in TRA's CAFR Statement of Changes in Fiduciary Net Position	\$ 299,299,837
Deduct employer contributions not related to future contribution efforts	(398,798)
Deduct TRA's contributions not included in allocation	(370,701)
Employer contributions reported in Schedule of Employer and Non-Employer pension allocations	<u>\$ 298,530,338</u>

Amounts reported in the allocation schedule may not precisely agree with financial statement amounts or actuarial valuations due to the number of decimal places used in the allocations. TRA has rounded percentage amounts to the nearest ten thousandths.

4. Actuarial Assumptions

The total pension liability in the June 30, 2014, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement.

Key Methods and Assumptions Used in Valuation of Total Pension Liability

Actuarial Information:

Measurement Date	June 30, 2014
Valuation Date	July 1, 2014
Experience Study	October 30, 2009
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Investment Rate of Return	8.25%
Wage Inflation	3.0%
Projected Salary Increase	3.5 - 12%, based on years of service
Cost of living adjustment	2.0% until year 2034, 2.5% thereafter

Mortality Assumption:

Pre-retirement	RP2000 non-annuitant generational mortality, white collar adjustment, male rates set back 5 years and female rates set back 7 years
Post-retirement	RP2000 annuitant generational mortality, white collar adjustment, male rates set back 2 years and female rate set back 3 years
Post-disability	RP2000 disables retiree mortality, without adjustment

The actuarial assumptions used in the June 30, 2014, valuation were based on the results of an actuarial experience study for the period July 1, 2004 to June 30, 2008 and a limited scope experience study dated August 29, 2014. The limited scope experience study addressed only inflation and long-term rate of return for the GASB 67 valuation.

INDEPENDENT SCHOOL DISTRICT NO. 111
WATERTOWN, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015
(Continued)

NOTE 8 DEFINED BENEFIT PENSION PLANS (Continued)

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Stocks	45%	5.50%
International Stocks	15%	6.00%
Bonds	18%	1.45%
Alternative Assets	20%	6.40%
Cash	2%	0.50%
Total	<u>100%</u>	

5. Discount Rate

The discount rate used to measure the total pension liability was 8.25%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the fiscal 2015 contribution rate, contributions from school districts will be made at contractually required rates (actuarially determined), and contributions from the state will be made at current statutorily required rates. Based on these assumptions, each of the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

6. Net Pension Liability

At June 30, 2015, the District reported a liability of \$6,681,496 for its proportionate share of TRA's net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions to TRA in relation to total system contributions including direct aid from the State of Minnesota, City of Minneapolis and Minneapolis School District. The District's proportionate share was 0.1450% at the end of the measurement period and 0.1462% for the beginning of the period.

The pension liability amount reflected a reduction due to direct aid provided to TRA. The amount recognized by the District as its proportionate share of the net pension liability, the direct aid, and total portion of the net pension liability that was associated with the District were as follows:

INDEPENDENT SCHOOL DISTRICT NO. 111
WATERTOWN, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015
(Continued)

NOTE 8 DEFINED BENEFIT PENSION PLANS (Continued)

District's proportional share of net pension liability	\$	6,681,496
State's proportional share of net pension liability associated with the District	\$	470,033

A change in benefit provisions that affected the measurement of the total pension liability since the prior measurement date was an increase of the contribution rates for both the member and employer.

There was a change in actuarial assumptions that affected the measurement of the total liability for TRA since the prior measurement date. Post-retirement benefit adjustments are now assumed to increase from 2.0% annually to 2.5% annually once the legally specified criteria are met. This is measured to occur July 1, 2034.

For the year ended June 30, 2015, the District recognized pension expense of \$345,305. It also recognized \$20,504 as an increase to pension expense for the support provided by direct aid.

At June 30, 2015, the District had deferred resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ 570,112	\$
Net difference between projected and actual earnings on plan investments		2,100,595
Changes in proportion		56,950
Contributions paid to TRA subsequent to the measurement date	520,817	
Total	<u>\$ 1,090,929</u>	<u>\$ 2,157,545</u>

Deferred outflows and inflows of resources will be recognized in pension expense as follows:

<u>Year ended June 30</u>	<u>Pension Expense Amount</u>
2016	\$ 102,801
2017	(418,017)
2018	(418,017)
2019	(418,017)
2020	84,634

INDEPENDENT SCHOOL DISTRICT NO. 111
WATERTOWN, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015
(Continued)

NOTE 8 DEFINED BENEFIT PENSION PLANS (Continued)

7. Pension Liability Sensitivity

The following table presents the District's proportionate share of the net pension liability calculated using the discount rate of 8.25%, as well as what the liability measured using a discount rate 1 percentage point lower or 1 percentage point higher than the current discount rate:

	1% Decrease in Discount Rate <hr/> 7.25%	Discount Rate <hr/> 8.25%	1% Increase in Discount Rate <hr/> 9.25%
District's proportionate share of the TRA net pension liability	\$ 11,042,224	\$ 6,681,496	\$ 3,046,156

The District's proportion of the net pension liability was based on the employer contributions to TRA in relation to TRA's total employer contributions including direct aid contributions from the State of Minnesota, City of Minneapolis and Minneapolis School District.

8. Pension Plan Fiduciary Net Position

Detailed information about TRA's fiduciary net position is available in a separately-issued TRA financial report. That report can be obtained at www.MinnesotaTRA.org; by writing to TRA at 60 Empire Drive #400, St. Paul, Minnesota, 55103-4000; or by calling (651)296-2409 or 1-800-657-3669.

B. Public Employee Retirement Association (PERA)

1. Plan Description

All full-time and certain part-time employees of the District other than teachers are covered by the General Employees Retirement Fund (GERF). GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan.

2. Benefits Provided

PERA provides retirement, disability, and death benefits. Benefit provisions are established by state statute and can only be modified by the state legislature.

Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Members in plans that are at least 90% funded for two consecutive years are given 2.5% increases. Members in plans that have not exceeded 90% funded, or have fallen below 80%, are given 1% increases.

The benefit provisions described in the following paragraph are current provisions and apply to active plan participants. Vested, terminated employees who are entitled to benefits but are not receiving them yet are bound by the provisions in effect at the time they last terminated their public service.

INDEPENDENT SCHOOL DISTRICT NO. 111
WATERTOWN, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015
(Continued)

NOTE 8 DEFINED BENEFIT PENSION PLANS (Continued)

Benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2% of average salary for each of the first 10 years of service and 2.7% for each remaining year. The annuity accrual for a Coordinated Plan member is 1.2% of average salary for each of the first 10 years and 1.7% for each remaining year. Under Method 2, the annuity accrual rate is 2.7% of average salary for Basic Plan members and 1.7% for Coordinated Plan members for each year of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped by 66. Disability benefits are available for vested members, and are based upon years of service and average high-five salary.

3. Contributions

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature.

GERF Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.25%, respectively, of their annual covered salary in calendar year 2014. Coordinated Plan members contributed 6.5% of pay in 2015. In calendar year 2014, the District was required to contribute 11.78% of pay for Basic Plan members and 7.25% for Coordinated Plan members. In 2015, employer rates increased to 7.5% in the Coordinated Plan. The District's contributions to the GERF for the year ended June 30, 2015 were \$199,656. The District's contribution was equal to the contractually required contribution for the year as set by state statute.

4. Pension Costs

At June 30, 2015, the District reported a liability of \$2,339,355 for its proportionate share of GERF's net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2013, through June 30, 2014, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2014, the District's proportion was 0.0498%.

For the year ended June 30, 2015, the District recognized pension expense of \$173,663 for its proportionate share of GERF's pension expense.

At June 30, 2015, the District reported its proportionate share of the GERF's deferred outflows of resources and deferred inflows of resources from the following sources:

INDEPENDENT SCHOOL DISTRICT NO. 111
WATERTOWN, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015
(Continued)

NOTE 8 DEFINED BENEFIT PENSION PLANS (Continued)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 35,902	\$
Changes in actuarial assumptions	241,094	
Net difference between projected and actual earnings on plan investments		632,091
Contributions paid to PERA subsequent to the measurement date	199,656	
Total	\$ 476,652	\$ 632,091

Amounts reported as deferred outflows and inflows of resources related to GERS will be recognized in pension expense as follows:

Year ended June 30	Pension Expense Amount
2016	\$ 133,965
2017	(65,691)
2018	(65,691)
2019	(158,022)
2020	0

5. Actuarial Assumptions

The total pension liability in the June 30, 2014, actuarial valuation was determined using the entry age normal actuarial cost method and the following actuarial assumptions:

Inflation	2.75% per year
Active Member Payroll Growth	3.50% per year
Investment Rate of Return	7.90%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP-2000 tables for males or females, as appropriate, with slight adjustments.

Actuarial assumptions used in the June 30, 2014, valuation were based on the results of actuarial experience studies. The experience study in the GERS was for the period July 1, 2004, through June 30, 2008, with an update of economic assumptions in 2014.

The following changes in actuarial assumptions occurred in 2014:

As of July 1, 2013, the postretirement benefit increase rate was assumed to increase from 1.0% to 2.5% on January 1, 2046. As of July 1, 2014, the postretirement benefit increase rate was assumed to increase from 1.0% to 2.5% on January 1, 2031.

INDEPENDENT SCHOOL DISTRICT NO. 111
WATERTOWN, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015
(Continued)

NOTE 8 DEFINED BENEFIT PENSION PLANS (Continued)

The long-term expected rate of return on pension plan investments is 7.9%. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimates ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Stocks	45%	5.50%
International Stocks	15%	6.00%
Bonds	18%	1.45%
Alternative Assets	20%	6.40%
Cash	2%	0.50%
Total	<u>100%</u>	

6. Discount Rate

The discount rate used to measure the total pension liability was 7.9%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on these assumptions, each of the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

7. Pension Liability Sensitivity

The following table presents the District's proportionate share of the net pension liability for all plans it participates in, calculated using the discount rate disclosed in the preceding paragraph, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate 1 percentage point lower or 1 percentage point higher than the current discount rate:

	<u>1% Decrease in Discount Rate</u>	<u>Discount Rate</u>	<u>1% Increase in Discount Rate</u>
	6.90%	7.90%	8.90%
District's proportionate share of the PERA net pension liability	\$ 3,771,134	\$ 2,339,355	\$ 1,161,337

INDEPENDENT SCHOOL DISTRICT NO. 111
WATERTOWN, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015
(Continued)

NOTE 8 DEFINED BENEFIT PENSION PLANS (Continued)

8. Pension Plan Fiduciary Net Position

Detailed information about GERS's fiduciary net position is available in a separately-issued PERA financial report. That report can be obtained at www.mnpera.org; by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088; or by calling (651)296-7460 or 1-800-652-9026.

NOTE 9 POSTEMPLOYMENT HEALTHCARE PLAN

Plan Description - Independent School District No. 111 administers a single-employer defined benefit OPEB plan which provides medical and dental benefits to eligible retired employees and their dependents in accordance with the terms of the plan. The District has established a trust fund to account for accumulated plan assets available to pay for current and future postemployment health care costs. The Trust does not issue a stand alone financial report, but is included in this report of the District as a fiduciary fund.

Funding - Employer contribution requirements are established and may be amended as set forth in the applicable employment and bargaining unit agreements. As of July 1, 2014, the date of the latest actuarial valuation, approximately 13 retirees and their dependents were receiving postemployment health and an estimated 236 active employees are eligible to receive future benefits under the plan.

Annual OPEB Cost and Net OPEB Obligation - Independent School District No. 111's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the *annual required contribution of the employer (ARC)*, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The following table shows the components of Independent School District No. 111's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in Independent School District No. 111's net OPEB obligation as of June 30, 2015:

Annual required contribution (ARC)	\$ 104,724
Interest on net OPEB asset	(5,486)
Adjustment to the ARC	7,991
Annual OPEB cost	<u>107,229</u>
Contributions made:	<u>92,932</u>
Increase in OPEB obligation (asset)	14,297
Net OPEB obligation (asset), June 30, 2014	<u>(137,146)</u>
Net OPEB obligation (asset), June 30, 2015	<u><u>\$ (122,849)</u></u>

INDEPENDENT SCHOOL DISTRICT NO. 111
WATERTOWN, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015
(Continued)

NOTE 9 POSTEMPLOYMENT HEALTHCARE PLAN (Continued)

The net OPEB asset has been shown in the Statement of Net Position.

Independent School District No. 111's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation (Asset)
June 30, 2015	\$ 107,229	86.7%	\$ (122,849)
June 30, 2014	114,972	138.4%	(137,146)
June 30, 2013	114,475	122.3%	(92,990)

Funded Status and Funding Progress - As of July, 1, 2014, the actuarial accrued liability and the unfunded actuarial accrued liability (UAAL) for benefits was \$864,247. The covered payroll (annual payroll of active employees covered by the plan) was \$9,195,454, and the ratio of the UAAL to the covered payroll was 9.4 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions - Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2014, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a discount rate of 4 percent, inflation rate of 2.5 percent, health care trend rates ranging from 7.5 percent initially, reduced by decrements to an ultimate rate of 5 percent after ten years. The UAAL is being amortized on a closed basis as a level dollar amount over thirty years.

INDEPENDENT SCHOOL DISTRICT NO. 111
WATERTOWN, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015
(Continued)

NOTE 10 CONTINGENCIES

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amounts, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the District expects such amounts, if any, to be immaterial.

The District has a commitment under a construction contract for uncompleted work at June 30, 2015 in the amount of \$166,587. The commitment will be paid from the General Fund unassigned fund balance.

NOTE 11 RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; natural disasters and workers compensation. The District purchases commercial insurance coverage for such risks.

The District continues to carry commercial insurance for all other risk of loss. There have been no significant reductions in insurance coverage from the previous year in any of the District's policies. In addition, there have been no settlements in excess of the District's insurance coverage in any of the prior three years.

NOTE 12 SUBSEQUENT EVENTS

On September 28, 2015, the Board approved the issuance of \$5,055,000 General Obligation School Building Refunding Bonds, Series 2015A, to current refund the General Obligation School Building Bonds, Series 2006A callable on February 1, 2016, and the issuance of \$8,115,000 General Obligation School Building Refunding Bonds, Series 2015B, to crossover refund the General Obligation School Building Bonds, Series 2007A, callable on February 1, 2017. The issues were undertaken to reduce future interest costs in the amount of \$383,637 and \$1,018,648, respectively.

NOTE 13 FUTURE ACCOUNTING STANDARDS

Government Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, is effective for the District for the year ended June 30, 2018. This statement replaces the requirements of GASB 45, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources and expense/expenditures, and identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. The District has not completed the process of evaluating GASB Statement No. 75, but implementation is expected to impact the District's recognition of OPEB liabilities and expense/expenditures.

REQUIRED SUPPLEMENTARY INFORMATION

INDEPENDENT SCHOOL DISTRICT NO. 111
WATERTOWN, MINNESOTA

INFORMATION ABOUT THE DISTRICT'S OTHER POSTEMPLOYMENT
HEALTH CARE PLAN
FOR THE YEAR ENDED JUNE 30, 2015

Schedule of Funding Progress by Valuation Date

Actuarial Valuation Date	Value of Assets (a)	Actuarial Accrued Liability (AAL) Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a/c)
July 1, 2009	\$	\$ 729,975	\$ 729,975	0.00%	\$ 5,206,440	14.02%
July 1, 2012		1,031,393	1,031,393	0.00%	8,133,743	12.68%
July 1, 2014		864,247	864,247	0.00%	9,195,454	9.40%

INDEPENDENT SCHOOL DISTRICT NO. 111
WATERTOWN, MINNESOTA

INFORMATION ABOUT THE DISTRICT'S NET PENSION LIABILITY
FOR THE YEAR ENDED JUNE 30, 2015

Schedule of Employer's Share of Net Pension Liability

TEACHER'S RETIREMENT ASSOCIATION (TRA)

Source	2015
District's proportion of the net pension liability	0.1450%
District's proportionate share of the net pension liability	\$ 6,681,496
State's proportionate share of the net pension liability associated with the district	\$ 470,033
Total	\$ 7,151,529
District's covered-employee payroll	\$ 6,617,287
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	101.0%
Plan fiduciary net position as a percentage of the total pension liability	81.5%

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (PERA)

Source	2015
District's proportion of the net pension liability	0.0498%
District's proportionate share of the net pension liability	\$ 2,339,355
District's covered-employee payroll	\$ 2,615,489
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	89.44%
Plan fiduciary net position as a percentage of the total pension liability	78.7%

INDEPENDENT SCHOOL DISTRICT NO. 111
WATERTOWN, MINNESOTA

INFORMATION ABOUT THE DISTRICT'S NET PENSION LIABILITY
FOR THE YEAR ENDED JUNE 30, 2015

Schedule of Employer's Contributions

TEACHER'S RETIREMENT ASSOCIATION (TRA)

<u>Source</u>	<u>2015</u>
Statutorily required contribution	\$ 463,210
Contributions in relation to the statutorily required contribution	\$ 463,210
Contribution deficiency (excess)	\$ 0
District's covered-employee payroll	\$ 6,617,287
Contributions as a percentage of covered-employee payroll	7.00%

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (PERA)

<u>Source</u>	<u>2015</u>
Statutorily required contribution	\$ 189,624
Contributions in relation to the statutorily required contribution	\$ 189,624
Contribution deficiency (excess)	\$ 0
District's covered-employee payroll	\$ 2,615,489
Contributions as a percentage of covered-employee payroll	7.25%

SUPPLEMENTARY INFORMATION

INDEPENDENT SCHOOL DISTRICT NO. 111
WATERTOWN, MINNESOTA

UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS
FISCAL COMPLIANCE TABLE
FOR THE YEAR ENDED JUNE 30, 2015

	Audit	UFARS	Audit-UFARS		Audit	UFARS	Audit-UFARS
<u>01 GENERAL FUND</u>				<u>06 BUILDING CONSTRUCTION</u>			
Total revenues	\$ 15,677,651	\$ 15,677,651	\$	Total revenues	\$	\$	\$
Total expenditures	15,746,828	15,746,829	(1)	Total expenditures			
<i>Non spendable</i>				<i>Non spendable</i>			
460 Non spendable fund balance	87,038	87,038		460 Non spendable fund balance			
<i>Restricted/Reserve</i>				<i>Restricted/Reserve</i>			
403 Staff development	1,735	1,735		407 Down payment levy			
405 Deferred maintenance	2	2		409 Alternative facility program			
406 Health and safety	(123,088)	(123,088)		413 Projects funded by COP			
407 Capital Projects Levy				<i>Restricted</i>			
408 Cooperative revenue				464 Restricted fund balance			
414 Operating debt				<i>Unassigned</i>			
416 Levy reduction				463 Unassigned fund balance			
417 Taconite building maintenance							
423 Certain teacher programs				<u>07 DEBT SERVICE</u>			
424 Operating capital	11,598	11,598		Total revenues	4,818,332	4,818,332	
426 \$25 Taconite				Total expenditures	4,713,983	4,713,983	
427 Disabled accessibility				<i>Non spendable</i>			
428 Learning and development				460 Non spendable fund balance			
434 Area learning center				<i>Restricted/Reserve</i>			
435 Contracted alt. Programs				425 Bond refundings	26,327,520	26,327,520	
436 St. approved alt. Program				451 QZAB payments			
438 Gifted & talented				<i>Restricted</i>			
441 Basic skills program				464 Restricted fund balance	899,578	899,579	(1)
445 Career and technical Programs				<i>Unassigned</i>			
449 Safe schools levy				463 Unassigned fund balance			
450 Prekindergarten							
451 QZAB payments				<u>08 TRUST</u>			
452 OPEB liability not in trust				Total revenues	21,967	21,967	
453 Unfunded sev & retirement levy				Total expenditures	33,710	33,709	1
<i>Restricted</i>				422 Net position	81,400	81,400	
464 Restricted fund balance							
<i>Committed</i>				<u>20 INTERNAL SERVICE</u>			
418 Committed for separation				Total revenues			
461 Committed fund balance				Total expenditures			
<i>Assigned</i>				422 Net position			
462 Assigned fund balance	45,295	45,295					
<i>Unassigned</i>				<u>25 OPEB REVOCABLE TRUST FUND</u>			
422 Unassigned fund balance	1,198,168	1,198,164	4	Total revenues			
				Total expenditures			
<u>02 FOOD SERVICE</u>				422 Net position			
Total revenues	784,901	784,901					
Total expenditures	762,915	762,915		<u>45 OPEB IRREVOCABLE TRUST FUND</u>			
<i>Non spendable</i>				Total revenues			
460 Non spendable fund balance	9,417	9,417		Total expenditures			
<i>Restricted/Reserved</i>				422 Net position			
452 OPEB liability not in trust							
<i>Restricted</i>				<u>47 OPEB DEBT SERVICE FUND</u>			
464 Restricted fund balance	25,222	25,224	(2)	Total revenues			
<i>Unassigned</i>				Total expenditures			
463 Unassigned fund balance				<i>Non spendable</i>			
				460 Non spendable fund balance			
<u>04 COMMUNITY SERVICE</u>				<i>Restricted</i>			
Total revenues	1,241,220	1,241,220		425 Bond refundings			
Total expenditures	1,208,190	1,208,190		464 Restricted fund balance			
<i>Non spendable</i>				<i>Unassigned</i>			
460 Non spendable fund balance	820	820		463 Unassigned fund balance			
<i>Restricted/Reserved</i>							
426 \$25 taconite							
431 Community education	63,005	63,005					
432 ECFE	(1,128)	(1,128)					
444 School readiness	(8,518)	(8,518)					
447 Adult Basic Education							
452 OPEB liability not in trust							
<i>Restricted</i>							
464 Restricted fund balance	6,010	6,009	1				
<i>Unassigned</i>							
463 Unassigned fund balance							

**REPORTS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*,
THE OFFICE OF MANAGEMENT AND BUDGET CIRCULAR A-133
AND
THE STATE OF MINNESOTA**

INDEPENDENT SCHOOL DISTRICT NO. 111
WATERTOWN, MINNESOTA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2015

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Expenditures</u>
U.S. DEPARTMENT OF AGRICULTURE			
Passed-through Minnesota Department of Education			
School Breakfast Program	10.553	None provided	\$ 35,431
Non-cash assistance - commodities	10.555	None provided	46,893
National School Lunch Program	10.555	None provided	180,670
Commodities rebate	10.555	None provided	36
After School Snack Program	10.555	None provided	957
Total U.S. Department of Agriculture - Total Child Nutrition Cluster			<u>\$ 263,987</u>
U.S. DEPARTMENT OF EDUCATION			
Passed-through Minnesota Department of Education			
Title I, Part A	84.010	None provided	110,463
Title II, Part A	84.367	None provided	36,369
IDEA, Part B	84.027	None provided	296,407
IDEA, Part B - Preschool Grant for Children with Disabilities	84.173	None provided	<u>6,603</u>
Total Special Education Cluster			303,010
IDEA, Part C - Infants and Toddlers	84.181	None provided	12,087
Passed-through Carver-Scott Special Education Cooperative			
Carl Perkins Vocational and Applied Technology	84.048A	None provided	<u>10,351</u>
Total U.S. Department of Education			<u>472,280</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed-through Minnesota Department of Health and Human Services			
Medical assistance	93.778	None provided	132,265
Childcare Mandatory and Matching Funds of the Child Care Development Fund	93.596	None provided	<u>1,150</u>
Total expenditures of Federal awards			<u><u>\$ 869,682</u></u>

INDEPENDENT SCHOOL DISTRICT NO. 111
WATERTOWN, MINNESOTA
NOTES TO THE SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2015

NOTE 1 BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Independent School District No. 111 under programs of the federal government for the year ended June 30, 2015. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of the Independent School District No. 111, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Independent School District No. 111.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.



Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters

To the School Board
Independent School District No. 111
Watertown, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 111 (District), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and we have issued our report thereon dated November 9, 2015.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses as item 2015-001 to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompany schedule of findings and responses as item 2015-002 to be significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

District's Response to Findings

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Wipfli LLP".

Wipfli LLP

November 9, 2015
Duluth, Minnesota



Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control over Compliance Required by OMB Circular A-133

To the School Board
Independent School District No. 111
Watertown, Minnesota

Report on Compliance for Each Major Federal Program

We have audited Independent School District No. 111's (District) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2015. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and responses.

Management's Responsibility for Compliance

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the District's compliance.

Opinion

In our opinion, the District, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

Report on Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Wipfli LLP

November 9, 2015
Duluth, Minnesota



Independent Auditor's Report on Legal Compliance for the State of Minnesota

To the School Board
Independent School District No. 111
Watertown, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 111 (District), as of and for the year ended June 30, 2015, and the related notes to the financial statements, and have issued our report thereon dated November 9, 2015.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minnesota Statute §6.65, contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, uniform financial accounting and reporting standards for school districts, and miscellaneous provisions. Our audit considered all of the listed categories.

In connection with our audit, nothing came to our attention that caused us to believe that the District failed to comply with provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, except as disclosed in the accompanying schedule of findings and responses as items 2015-003 and 2015-004. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the District's noncompliance with the above referenced provisions.

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the District's response and, accordingly, we express no opinion on it.

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Wipfli LLP".

Wipfli LLP

November 9, 2015
Duluth, Minnesota

INDEPENDENT SCHOOL DISTRICT NO. 111
WATERTOWN, MINNESOTA

SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2015

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued

Unmodified

Internal control over financial reporting:

Material weakness identified?

 X

Yes

No

Significant deficiency(s) identified?

 X

Yes

None reported

Noncompliance material to the financial statements?

Yes

 X

No

Federal Awards

Internal control over major programs:

Material weakness identified?

Yes

 X

No

Significant deficiency(s) identified?

Yes

 X

None reported

Type of auditor's report issued on compliance for major programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with Circular A-133 Section .510(1)(a)

Yes

 X

No

Identification of major federal program:

CFDA Number

84.027, 84.173

10.553, 10.555

Name of Federal Program or Cluster

Special Education Cluster

Child Nutrition Cluster

Dollar threshold used to distinguish between Type A and Type B Programs

\$300,000

Auditee qualified as a low-risk auditee?

Yes

 X

No

INDEPENDENT SCHOOL DISTRICT NO. 111
WATERTOWN, MINNESOTA

SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2015
(Continued)

Section II - Financial Statement Findings

Item 2015-001 - Significant Audit Adjustments (Material Weakness)

Condition - The District is responsible for controls over the period-end financial reporting process, including controls over procedures to process journal entries into the general ledger and record recurring and nonrecurring adjustments to the financial statements. During the audit, we proposed material adjustments to the District's financial records to correct certain misstatements.

Criteria - Controls should be in place to ensure accurate financial reporting.

Cause - The District's controls over period-end financial reporting did not prevent or detect a misstatement of the financial statements.

Effect - Without controls over procedures that will detect or prevent a misstatement when processing journal entries, the financial statements may be misstated.

DISTRICT'S CORRECTIVE ACTION PLAN (CAP):

1. Explanation of Disagreement

The District does not disagree with the audit finding.

2. Action Planned

The District will continue to rely upon the auditors to propose audit adjustments that are necessary to adjust general ledger accounts. Management will review and approve those entries prior to recording them.

3. Official Responsible

The Superintendent is the official responsible for ensuring corrective action for the deficiency.

4. Planned Completion Date

Immediately.

5. Plan to Monitor

The School Board will monitor compliance with the corrective action plan.

Item 2015-002 - Financial Statement Presentation and Disclosures (Significant Deficiency)

Condition - The District's internal control over financial reporting does not end at the general ledger, but extends to the financial statements and related notes. As part of our professional services for the year ended June 30, 2015, Wipfli assisted in drafting the financial statements and related notes. While the District does have an internal control process to review the financial statements prepared by the auditors, the District does not have sufficient expertise to completely prepare its own financial statements and related notes, and relies on the auditors to provide necessary understanding of current accounting and disclosure principles in the preparation of the financial statements and related notes.

INDEPENDENT SCHOOL DISTRICT NO. 111
WATERTOWN, MINNESOTA

SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2015
(Continued)

Criteria - Controls should be in place to prepare financial statements in accordance with generally accepted accounting principles.

Cause - The District does not have control policies and procedures over the preparation of the financial statements.

Effect - The completeness of the related note disclosures and the accuracy of the overall financial presentation is negatively impacted as outside auditors do not have the same comprehensive understanding of the District and its staff. The potential exists that a misstatement of the financial statements and related notes could occur and not be prevented or detected by the District.

DISTRICT'S CORRECTIVE ACTION PLAN (CAP):

1. Explanation of Disagreement

The District does not disagree with the audit finding.

2. Action Planned

The District will continue to rely upon the auditors to prepare the financial statements and related notes. Management will review and approve the annual financial statements and related notes.

3. Official Responsible

The Superintendent is the official responsible for ensuring corrective action for the deficiency.

4. Planned Completion Date

Ongoing.

5. Plan to Monitor

The School Board will monitor compliance with the corrective action plan.

Section III - Federal Award Findings

None.

Section IV - Minnesota Legal Compliance Findings

2015-003 - MSA 270C.66 requires that before making a final settlement with any contractor under a contract requiring the employment of employees for wages by said contractor and by subcontractors, to obtain a certificate by the Commissioner of Revenue that the contractor or subcontractor has complied with the withholding requirements of MSA 290.92 (Form IC-134). The District did not obtain the form before making final payment to three contractors tested.

INDEPENDENT SCHOOL DISTRICT NO. 111
WATERTOWN, MINNESOTA

SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2015
(Continued)

DISTRICT'S CORRECTIVE ACTION PLAN (CAP):

1. Explanation of Disagreement

The District does not disagree with the audit finding.

2. Action Planned

The District will obtain the required form before making a final payment to a contractor in the future.

3. Official Responsible

The Superintendent and Business Manager.

4. Planned Completion Date

Immediately.

5. Plan to Monitor

The School Board will monitor compliance with the corrective action plan.

2015-004 - MSA 118A.03 requires depositories of municipal funds to pledge securities as collateral for deposits that exceed federal insurance coverage (FDIC). The market value of the collateral pledged must exceed 100% of the uninsured deposits. We tested the last day of each month during the fiscal year. There were two days at one financial institution in which the insurance and the pledged collateral was not sufficient to cover deposits.

DISTRICT'S CORRECTIVE ACTION PLAN (CAP):

1. Explanation of Disagreement

The District does not disagree with the audit finding.

2. Action Planned

The District does have a system in place to monitor the amount of pledged collateral. Financial institutions pledge collateral based on average cash balances. At various times the amount of the funds on deposit at a financial institution may be greater than anticipated. The District will continue to work with the financial institution to monitor the level of pledged collateral needed during the year.

3. Official Responsible

The Superintendent and Business Manager.

4. Planned Completion Date

Immediately.

5. Plan to Monitor

The School Board will monitor compliance with the corrective action plan.

INDEPENDENT SCHOOL DISTRICT NO. 111
WATERTOWN, MINNESOTA

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2015

Financial Statement Findings

Finding 2014-001 - Significant Audit Adjustments

Resolution - This finding was repeated in fiscal year 2014 as Item 2015-001.

Finding 2014-002 – Financial Statement Presentation and Disclosure

Resolution - This finding was repeated in fiscal year 2014 as Item 2015-002.

Federal Award Findings

None